



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 17110
Denver, Colorado 80217-0110

IN REPLY REFER TO:

FEB 3 1995

RPD/PRB
Mail Stop 3122

TO OFFSHORE OPERATORS AND PAYORS ONLY

Dear Reporter:

The Minerals Management Service (MMS) is enhancing reporting requirements for reporters of offshore leases, agreements and pipeline systems/separation facilities to properly report drip condensate (i.e., scrubber/pipeline drip, retrograde condensate, drip liquid). Currently, the Bayou Black/Transco, Terrebonne/Trunkline, Iowa/TETCO Cameron, and VGS/Delta Gathering Station separation facilities in the Gulf of Mexico are separating oil/condensate and drip condensate from the stream before the gas flows to a gas plant operated by a different company. This letter provides guidelines on how to report this type of allocation to the Production Accounting and Auditing System (PAAS) and to the Auditing and Financial System (AFS) beginning with the January 1995 report period/sales month.

This situation occurs when large volumes of natural gas and relatively small volumes of liquid hydrocarbon streams are commingled. When the stream is cooled by the Gulf of Mexico on the way to shore, there is a transfer of components between phases. As a result, the relative quantities of gas and liquid recovered at these facilities are different from those measured offshore. At the onshore separation facility all liquids, including the drip condensate volume, are stripped from the gas stream prior to the inlet of the plant and not reflected in the gas plant's drip/scrubber volume. Therefore, these volumes/royalties are not being accounted for by MMS when the royalty for natural gas is determined after the gas is processed by a gas plant.

When an allocation is received for drip condensate from any of the systems identified above, MMS will expect reporters to report and pay on this volume. Specific reporting instructions are enclosed (Enclosure 1). By requiring all operators to report the allocated volumes, MMS fulfills its requirements to:

- account for 100 percent of the volume being recovered and measured through these "royalty meters";
- provide a more accurate audit trail; and
- resolve outstanding AFS/PAAS and Liquid Verification System (LVS) exceptions.

These new reporting requirements will affect the following reports:

- the Oil and Gas Operations Report (OGOR), Part-B and/or Part-C for all reporters;
- the Production Allocation Schedule Report (PASR) for the separation facilities and all upstream commingling points. The majority of these commingling points were confirmed on the Facility Measurement Information Form (FMIF) Confirmation Reports with 07/94 as the effective date and facility name of "Retrograde Meter". Please note, since MMS is not aware of contractual agreements between gas plants and purchasers, these drip condensate Facility Measurement Point (FMP) numbers were assigned to ALL approved gas measurement points where production is commingled with another lease(s) prior to entering the pipeline systems. A PASR must be submitted monthly beginning with the 01/95 report period on these FMP's, unless the Offshore Minerals Management (OMM) Surface Commingling and Production Measurement Section office in New Orleans is notified in writing and grants a waiver.
- the Report of Sales and Royalty Remittance, Form MMS-2014, for leases receiving an allocation from the separation facilities where the royalty determination point is after the gas is processed.

Because the system operator may not know the actual disposition of gas for each lease, they must allocate to all leases participating in the pipeline. The lease reporter must report these volumes and determine if royalties need to be paid on the drip condensate. This determination will be made based on the gas disposition as follows:

- Reporters who sell their gas at the platform and do not retain rights to the liquids, using disposition code '01', do not owe royalties for the drip condensate. This product was part of the gas stream measured on the platform and is included in royalties reported for the unprocessed gas.
- Reporters who transfer their gas to a gas plant for processing prior to royalty determination, using disposition code '11' or '12', must pay royalties for the drip condensate.
- Please note that all parties holding operating rights in your lease or agreement may have different sales contracts. Therefore, you may be required to report both disposition code '16' and '09' on the same report.

Revisions to Chapter 12, Special Reporting Situations, Example 4 and Appendix A, Disposition Codes '09' and '16' from the PAAS Reporter Handbook-Lease, Facility/Measurement Point, and Gas Plant Operators will be sent in the near future. Enclosures 2 and 3 provide Instructions and examples on how to report. Retroactive reporting not required, unless the properties and/or facility are involved in an MMS audit. In that case, you may be advised to modify your reports.

If you have any questions, please contact your production reporting contact or Ms. Beth Ann Becker of my staff at (303) 231-3391 or 1-800-525-7922.

Sincerely,

A handwritten signature in black ink that reads "Donald J. Sant". The signature is written in a cursive style with a large, prominent "D" and "S".

Acting

James W. Shaw
Associate Director for Royalty Management

3 Enclosures